

201 KAR 1:160. Peer reviews.

RELATES TO: KRS 325.301(12)

STATUTORY AUTHORITY: KRS 325.240(2), 325.301(12)

NECESSITY, FUNCTION, AND CONFORMITY: KRS 325.301(12) requires a firm that performs an audit, review, or compilation to enroll in and complete an approved peer review program. This administrative regulation establishes the standards and procedures that a CPA firm shall follow to comply with the requirements of KRS 325.301(12).

Section 1. Definitions. (1) "Peer review Web site" means a web page operated and maintained by a sponsoring organization on which documents associated with peer reviews performed by that organization's approved agent are posted and made available to the board.

(2) "Sponsoring organization" means an entity administering a peer review program whose standards of review are equivalent to or better than the "Standards for Performing and Reporting on Peer Reviews" of the American Institute of Certified Public Accountants.

Section 2. Initial Firm License and Renewal Applications. (1) If a firm applies to receive an initial license or renew an existing license, it shall advise the board if it performs audits, reviews, or compilations. A firm that indicates it is going to perform or is currently performing one of these services shall submit with its license application:

(a) Proof from a sponsoring organization that it is currently enrolled in a peer review program; and

(b) A copy of the firm's most recent peer review report and the sponsoring organization's acceptance letter received by the firm within three (3) years prior to submitting the application. If the firm has not received a peer review report within the three (3) year time period, it shall notify the board of that fact.

(2) Failure to submit proof of enrollment, and, if applicable, a copy of the peer review report and the sponsoring organization's acceptance letter shall result in the:

(a) Application being ineligible for consideration until proof of enrollment, and, if applicable, the peer review report and the sponsoring organization's acceptance letter is received by the board; and

(b) The firm being prohibited from providing any audit, review, or compilation services.

(3)(a) A firm that is applying for an initial license or to renew an existing license that received a fail, or second successive pass with deficiencies report within three (3) years prior to submitting the application shall also submit with its license application a copy of:

1. The firm's letter of response to any of the reports listed in this section that was sent to the sponsoring organization;

2. A letter or letters signed by the firm indicating it agrees to take any remedial actions required by the sponsoring organization as a condition of acceptance of the firm's peer review; and

3. A letter provided by the sponsoring organization notifying the firm that all required remedial actions have been appropriately completed.

(b) Peer review documents required by subsection (1) of this section or paragraph (a)1. of this subsection shall be made available to the board via a peer review Web site within thirty (30) days of the date of the sponsoring organization's acceptance letter.

(c) Peer review documents required by paragraph (a)2. of this subsection shall be made available to the board via a peer review Web site within thirty (30) days of the date that the firm signs the letter.

(d) Peer review documents required by paragraph (a)3. of this subsection shall be made

available to the board via a peer review Web site within thirty (30) days of the date of the letter from the sponsoring organization.

(e) If a sponsoring organization cannot provide access to the peer review documents required by subsection (1) of this section or this subsection via a peer review Web site, the firm shall provide copies of the documents by mail or facsimile within fifteen (15) days of receipt of the applicable document except for the documents required by paragraph (a)2. of this subsection, which shall be submitted within fifteen (15) days of the date the firm signs the letter.

(f) The board shall review and consider each of the reports listed in this section to determine if the firm shall be issued a license.

(g) If the board decides to issue a license, it may impose restrictions on the firm after taking into consideration the reported deficiencies and any remedial action since the issuance of any of the reports listed in this section.

(h) If a firm, when initially applying for or renewing its license, advised the board that it does not provide audits, reviews, or compilations but subsequently begins to provide those services prior to its next license renewal date, the firm shall:

1. Immediately notify the board;
2. Immediately enroll in a board-approved peer review program;
3. Provide evidence of enrollment to the board within thirty (30) days;
4. Undergo a peer review within eighteen (18) months of the fiscal year end of the initial engagement performed as described in the sponsoring organization's peer review standards; and
5. Submit the peer review documents to the board for its consideration in the manner identified in this section.

Section 3. Staff of the board shall review every peer review report and acceptance letter when they are received in the board office. A report graded as pass, or as pass with deficiencies that is not the second successive report with this finding shall be discarded according to the board's record retention schedule. A fail, or a second successive pass with deficiencies peer review report and the firm's responses to the report shall be presented to the board for review and determination of any action to be taken against the firm after taking into consideration:

- (1) The deficiencies described in the report;
- (2) The firm's written response to the report that was sent to the sponsoring organization;
- (3) Any remedial actions required by the sponsoring organization; and
- (4) The firm's compliance with the required remedial actions.

Section 4. If a firm is granted an extension of time to complete the peer review process, the firm shall immediately submit to the board a copy of a letter from the sponsoring organization that granted the extension.

Section 5. (1) A sponsoring organization shall report to the board on a quarterly basis the name of every firm enrolled in the peer review program and the name of every firm dropped or terminated from the program since the last quarterly report was provided by the sponsoring organization. This information may also be provided through a peer review Web site.

(2) A sponsoring organization shall bear the costs of verifying that it is operating the program in compliance with the standards for performing peer reviews.

Section 6. Exclusion from Peer Review.

(1) A proposal or other communication that describes the work proposed by a firm or its employees that is a prerequisite to deciding whether to perform an audit, review, or compilation of

financial statements shall be excluded from the peer review process.

(2) The exclusion from the peer review process provided for in the "Standards for Performing and Reporting on Peer Reviews" regarding compiled financial statement designated for management use only shall not apply.

Section 7. Incorporation by Reference. (1) "Standards for Performing and Reporting on Peer Reviews," June 2011, is incorporated by reference.

(2) This material may be inspected, copied, or obtained, subject to applicable copyright laws, at the office of the State Board of Accountancy, 332 W. Broadway, Suite 310, Louisville, Kentucky 40202, Monday through Friday, 8 a.m. to 4:30 p.m.

(3) These standards are also located on a Web site maintained by the American Institute of Certified Public Accountants at www.aicpa.org. (22 Ky.R. 2192; Am. 23 Ky.R. 122; eff. 7-5-96; 27 Ky.R. 590; eff. 10-16-2000; 35 Ky.R. 616; 1151; eff. 12-5-2008; 38 Ky.R. 814; 1117; eff. 1-6-12.)